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Firms increasing their tech spending, especially on AI
By Rob Burgess
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Firms inside and outside the wealth management industry have been shelling out more money than ever before on their tech stacks, especially when it comes to artificial intelligence.

Case in point is San Diego-based LPL Financial, which revealed last month it had spent around $500 million on technology and infrastructure enhancements in 2024. This helped fund over 250 new product enhancements.

One of its most prominent moves, announced in November 2024, was the launch of AI Advisor Solutions — a suite of four popular AI-powered tools that became available to the over 23,000 financial advisors LPL serves.

The trend of increased tech spending, and on AI in particular, is not limited to the wealth management sector. The Northern Trust Institute's "2025 Business Owner Benchmark," based on a September 2024 survey of 123 business owners with a median age of 67, found that over half (52%) plan to invest in at least as much, if not more AI, in 2025 than they did last year.

But even as many firms' tech budgets are likely to increase in 2025, experts say carefully spending that money to increase efficiency will be paramount to maintaining a nimble tech stack.

Client-facing technologies take center stage
William Trout, director of securities and investments at technology data firm Datos Insights, said based on his firm's research, wealth management firms typically allocate between 15% to 20% of their annual operating budgets to technology, with larger firms often investing more heavily.

Client-facing technologies, including mobile apps and portfolio management platforms, often receive the largest share at approximately 35% to 40% of technology budgets, said Trout. Back-office automation and operational systems generally account for 25% to 30% of spending.

Cybersecurity and data protection typically consume 20% to 25% of technology budgets, while the remaining funds are allocated to emerging technologies and innovation initiatives.

"The industry has seen a consistent upward trend in technology spending, driven by client expectations for digital services, regulatory requirements and operational efficiency needs," he said.

Chad Harmer, personal financial planner, chartered investment manager and founder of Harmer Wealth Management in Clarington, Ontario, said in 2024 his firm invested around $120,000 in technology, "a major increase from previous years."

"We focused on improving infrastructure and introducing innovative tools," he said. "This investment demonstrates our dedication to improving customer experiences and operational efficiency. Advanced CRM systems and clever AI technologies were key areas of increased spending, as they enable us to optimize workflows, improve client relationships and acquire deeper insights into financial planning methods."

Harmer said that in 2025 his firm expects to spend between $200,000 and $300,000 on technology as it expands its capabilities, with an emphasis on AI-driven solutions and integrated platforms.

"While these investments are significant, they are necessary for remaining competitive in a continually changing sector," he said.

It's not just how much you spend, but what you spend it on

Trout said wealth management firms employ several approaches to ensure cost-efficient technology operations. Firms are increasingly adopting cloud-based solutions, he said, which can offer more flexible scaling and potentially lower total ownership costs compared to on-premise systems. They are also conducting regular technology stack audits to identify redundancies and underutilized systems.

"This often reveals opportunities to consolidate vendors and eliminate duplicate functionalities," he said.

When technology spending is framed only as cost or is done without a purpose or vision, "then it can get out of hand quickly," said Jordan Hutchison, vice president of technology and operations at RFG Advisory. Hutchison said firms must constantly review their technology to ensure proper usage, team support and that vendors are delivering on their promises.

"Many people call this 'tech debt,' and it is where you have spent so much on your technology that it is a debt weighing down revenue or margins," he said. "Also, is the technology even being used? In many enterprises, items that are small cost have the potential to become out of hand quickly."

One example Hutchison pointed to was products that had smaller licensing costs.

"They seem small at first, but then you have hundreds or thousands of users, and

that product is now a feature of a larger product you use. Now that has a cost that is not adding value to your books," he said.

Harmer said when deciding on his firm's technology stack, they keep cost efficiency in mind.

"By conducting regular assessments and analyzing usage statistics, we discover underutilized tools and either optimize or replace them to maximize return on investment," he said. "One source of concern is the rising cost of AI products. Nevertheless, the potential benefit they give outweighs the expense, assuming they are applied successfully."

In contrast, cybersecurity is an area where Harmer said his firm has spent less in the past but now intends to increase that investment.

"As we implement more AI and cloud-based technologies, ensuring strong client data protection will be a top issue in 2025," he said. "Overall, our technology approach is focused on making significant investments that improve service delivery while maintaining a lean and effective budget."

Hutchison said he works closely with his firm's finance teams to track every dollar that goes to technology at both the advisor and corporate levels.

"Keeping a close eye on this allows us to see technology differently," he said. "We do not throw humans at problems. Headcount is expensive. What I mean by that is if we have an opportunity to make something better, we will go headfirst and see if this can be solved with technology, a better process, and more importantly, what the long-term plan is here."

The goal, Hutchison said, is to avoid building "something that is good today but needs to be changed in a year because it was a Band-Aid."

"Make the hard decisions and have the conviction of change to do what will help you scale and succeed over the next few years while keeping in mind that your advisors' experience is not hurting," he said. "Advisor fulfillment and growth is priority one."

Hutchison said cost is something RFG is always cognizant about due to what he calls the "shiny new tool effect," and that home offices are just as susceptible to this phenomenon as advisors.

"All of us technology leaders at RFG know that cost is something you must watch when it comes to usage and licenses," he said. "In the structure we have built, we are always discussing and comparing cost to norms and making sure that value is delivered for what we are paying for."

Looking ahead, Trout said focusing on creating integrated technology ecosystems rather than implementing isolated solutions will help reduce long-

term costs by improving system interoperability and reducing the need for custom integrations.

"Partnerships with fintech providers are of course an alternative to building proprietary solutions, and can help reduce development costs while accelerating implementation timelines," he said.

Thoughtfully building out architecture behind the scenes

At RFG Advisory, Hutchison said the firm plans to spend more on custom development and data architecture in 2025.

"We spent time last year reviewing the industry to see if anyone has built the advisor and client experience that is now expected, and we found out that no one has built it," he said. "Innovation is hard, and we see the industry with a different lens. Therefore, we are building this technology in-house with a few great vendors plugged into what we build."

Many firms implement formal technology governance frameworks to evaluate new investments and ongoing costs, including regular performance metrics review against predetermined key performance indicators (KPIs), systematic vendor evaluation processes, continuous monitoring of system utilization rates and regular cost-benefit analyses of existing technologies, said Trout. Additionally, firms often establish centralized technology steering committees to oversee major investments and ensure alignment with business objectives.

"These committees typically include representatives from various business units to ensure technology investments serve the entire organization effectively," he said.

Hutchison said some of the key areas that RFG is aware of are usage, integration, data integrity, outcomes and time spent in the software.

"If a team says they have to have it ... then show me and tell me where it fits into our structure," he said. "Many products out there are not needed to run a successful home office or successful advisory business. I love our vendor sales teams and vendors. However, they are there to sell. This is why it is foundational to keep an eye on what will move the mark for your business and what your visions and goals are."